LEGISLATIVE PRIORITIES – October 8, 2021

ELECTRIC VEHICLE INCENTIVES MUST WORK IN THE SHOWROOM

On September 15, the House Ways and Means Committee approved a new electric vehicle (EV) incentive program as part of the $3.5 trillion reconciliation bill. NADA supports tax credits to incentivize the consumer purchase of EVs. The legislation would increase the current EV tax credit from $7,500 up to $12,500 and make the credit refundable. The bill also makes the incentive transferable which would allow the consumer to obtain the credit at the point of sale or "cash on the hood." Prompt IRS reimbursement to dealers, who will front load the credit, is essential to ensure the full value of the consumer incentive. Additionally, Congress should broaden the incentive to include every franchised brand to achieve widespread EV adoption. **Congress must ensure any EV incentive program provides the broadest application to achieve widespread EV consumer adoption with the incentive credited at the point of sale to "work in the showroom."**

TAX HIKES WILL HURT AUTO SALES AND SMALL BUSINESS FAMILY DEALERSHIPS

NADA is concerned that the significant tax hikes included in the reconciliation bill passed by the House Ways and Means Committee will weaken the nation's auto industry. The House reconciliation bill includes several tax increases that are especially punitive to pass-through businesses and would needlessly strip working capital from dealerships and threaten jobs. As proposed, a pass-through business would go from a 29.6% rate to 43.4% after limiting the Section 199A deduction, adding a higher top individual rate (2.6% increase) and expanding application of the 3.8% net investment income tax (NIIT)/Self-Employed Contributions Act (SECA) tax to essentially all pass-through income. The bill would also accelerate the expiration of estate tax levels to the end of 2021, cutting the current exemption of $11.7 million to roughly $6 million per spouse.

Other tax hikes included in the proposal would: raise the top individual income tax rate from 37% to 39.6%, increase the long-term capital gains rate from 20% to 25% and raise the corporate tax rate from 21% to 26.5%. The bill is expected to be considered on the House floor this fall, with subsequent action in the Senate. **Congress should not raise taxes that threaten to dampen auto sales and undermine Main Street family-owned dealerships.**

TREASURY SHOULD GRANT LIFO RELIEF DUE TO COVID-RELATED VEHICLE PRODUCTION INTERRUPTIONS

Government actions to address the pandemic slowed or stopped production at vehicle assembly plants and suppliers across the globe, creating major foreign trade and supply interruptions in the U.S. vehicle industry. With historically low inventories and a semiconductor chip shortage caused by the pandemic, circumstances beyond the dealers' control, many dealers who use the Last-In, First-Out (LIFO) accounting method may face significant, unexpected tax liability due to LIFO recapture.

Last November, NADA petitioned the Treasury Department to exercise its authority under Section 473 of the Internal Revenue Code to allow taxpayers to elect to replace their new-vehicle inventories over a three-year period. Since the petition was submitted, vehicle inventory constraints have worsened, with no relief in sight. In the midst of depleted inventory, dealers are facing massive tax bills that could otherwise be utilized to invest in replenishing inventory, EV infrastructure, and employee training. The Treasury Department has not responded formally to the petition and has been reluctant to use its existing authority. **Members of Congress should urge the Treasury Department to grant temporary LIFO relief for businesses facing difficulty replacing inventories due to government and other actions that created a major global interruption of vehicle production**.